THE UNIVERSITY OF CHICAGO

ROUND TABLE

PRICES AND YOUR POCKETBOOK

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A Radio Discussion by LEO CHERNE
MILTON FRIEDMAN *and* GEORGE STIGLER

487TH BROADCAST IN COOPERATION WITH
THE NATIONAL BROADCASTING COMPANY

NUMBER 275 * * * JUNE 27, 1943

Around the Round Table . . . .

LEO M. CHERNE, executive director and editor-in-chief of the Research Institute of America, is a native of New York and studied in the New York public schools, New York University, and received his law degree from the New York Law School. He has been particularly interested in the subject of industrial mobilization for war, and the Research Institute under his direction has directed its activities to assisting business to function as effectively as possible under the new government-business relationships. He is at the present time working on a study of the economics of post-war planning. Mr. Cherne is the author of *M-Day and What It Means to You* and *Your Business Goes to War* (1942).

MILTON FRIEDMAN, of the staff of the National Bureau of Economic Research, is on leave at the present time in order to serve in the Division of War Research at Columbia University. Mr. Friedman is a native of New York City and was educated at Rutgers University, where he received his A.B. degree, and the University of Chicago, where he was granted his M.A. degree. He was a member of the National Resources Committee from 1935 to 1937, when he became a member of the National Bureau of Economic Research. From 1937 to 1940 he served as a part-time lecturer at Columbia University and during 1940–41 was a visiting professor at the University of Wisconsin. Before going to the Division of War Research, he was a member of the Division of Tax Research of the United States Treasury (1941–43). He is on the executive committee of the Conference on Research in National Income and Wealth. Mr. Friedman is the co-author of *Taxing To Prevent Inflation* (with Carl Shoup and Ruth Mack) (1943) and *Incomes from Independent Professional Practice* (with Simon Kuznets) (in press). He is also a contributor to the *American Economic Review*, *Quarterly Journal of Economics*, the *Journal of the American Statistical Association*, and other professional journals and magazines.

GEORGE STIGLER, associate professor of economics at the University of Minnesota, is at the present time visiting professor in the department of economics of the University of Chicago. He received his A.B. degree from the University of Washington, his M.A. from Northwestern University, and his Ph.D. degree from the University of Chicago. Before going to the University of Minnesota, he taught at Iowa State College. Next year Professor Stigler will be on leave to do special research for the National Bureau of Economic Research. He is the author of *Production and Distribution Theories* (1941) and *Theory of Competitive Price* (1942) and a contributor to numerous economic journals and professional magazines.

PRICES AND YOUR POCKETBOOK

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MR. STIGLER: America, gentlemen, really is pretty lucky. It has about one hundred million military experts and about one hundred million economists. The hundred million military experts are pretty well satisfied with the conduct of the war, and, as a matter of fact, I think one could even charge that they are a little complacent about the early day of victory.

As one hundred million economists, however, they are not quite so happy. They, as consumers, claim that their prices are going up a good deal faster than their pocketbooks are growing.

MR. CHERNE: I know that they are uncomfortable. But if we use our heads we will be a lot more uncomfortable. For example, if your radio is tuned all day, you will hear at least three appeals to buy war bonds in order to prevent inflation. I think that it is time to admit that inflation cannot be prevented. It is here!

Don't you think that the real question is how far we will let it go?

MR. FRIEDMAN: How far we let it go will determine not only how happy we are at home, as you suggested, but, much more important, whether we can continue being as successful as we have been on the military front. The military success in this war depends very closely on our success in solving our economic problems at home.

MR. STIGLER: You have made the categorical statement, Cherne, that we are having inflation. All of us have been taught to think that that is a pretty terrible thing, but we are just moderately uncomfortable now. What are the facts of the situation?

MR. CHERNE: I made the categorical statement, and I am going to stick to it. There are many degrees of inflation, but there is one thing upon which we will all agree. There is more money today in the pockets of American citizens than there are goods to buy with that money. Any time that condition prevails we have inflation.

MR. STIGLER: What about the question that everybody who produces goods gets dollars so they match up all right?

MR. FRIEDMAN: The point there is that only one out of every two people who is producing goods these days is producing goods he himself can buy. The other people are producing instruments of war that they cannot purchase. But all these people, whether they are producing military goods or civilian goods, are being paid. In short, they are receiving income for producing a lot more goods than there are goods available for them to buy.

MR. STIGLER: The thing we might say in general is that where we had a dollar on the average in 1939—the last peace year—we have two dollars now. Of course, that is not all net gain, for we probably pay another twenty cents in taxes. But we have about one dollar and eighty cents where we had a dollar before. Let us see where that money can go at the present time.

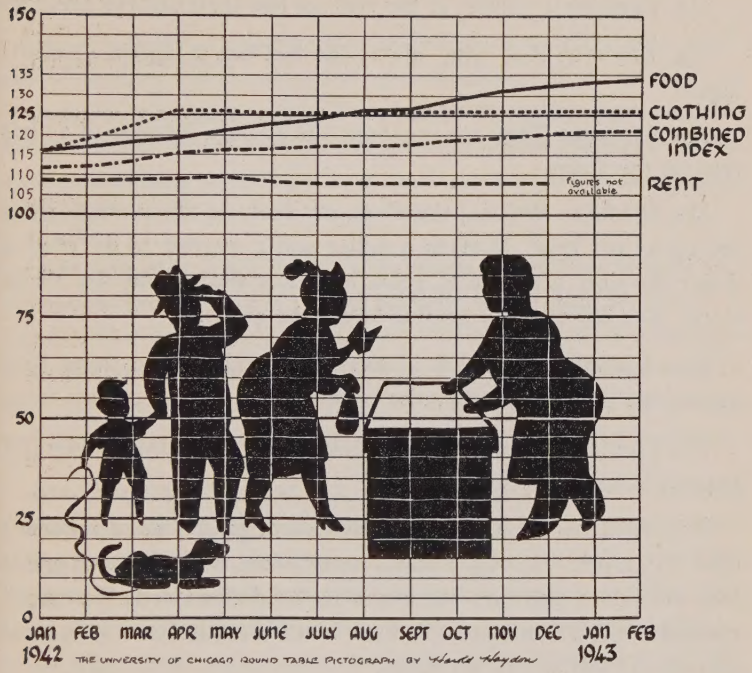
MR. CHERNE: As a matter of fact, even the dollar and eighty cents which is left after the taxes are deducted does not show the entire picture. A dollar and eighty cents today buys only about a dollar and forty-five cents' worth of goods in proportion to what would have been bought in 1940.

MR. STIGLER: We all know that the cost of living has gone up about 25 per cent in the last two or three years. Let us get specific about it. What about food?

The University of Chicago ROUND TABLE. *Published weekly. 10 cents a copy; full-year subscription, 52 issues, two dollars. Published by the University of Chicago, Chicago, Illinois. Entered as second-class matter January 3, 1939, at the post office at Chicago, Illinois, under the Act of March 3, 1879.*

THE RISE IN THE COST OF LIVING*

1935–39 = 100



* The combined index on this chart includes other factors in living costs besides food, rent, and clothing. This is a United States Department of Labor index.

MR. CHERNE: Food has gone up about 50 per cent. It takes a dollar and a half to buy a dollar's worth of goods.

MR. STIGLER: What about clothing?

MR. FRIEDMAN: That has gone up about the average—about 25 per cent.

MR. STIGLER: And how about rent?

MR. CHERNE: Rent is held pretty well. It is up only about 4 per cent.

MR. STIGLER: If you can get a house. What about fuel, ice, and so forth?

MR. FRIEDMAN: About 10 per cent, or less than half the average.

MR. STIGLER: And what about the last big category—furnishings?

MR. CHERNE: They are up about the average increase of 25 per cent on the dollar.

MR. STIGLER: We can, therefore, say that, on the average, costs are up 25 per cent. It takes a dollar and a quarter to do what a dollar did only a couple of years ago. But that is not the whole story. You still have to be able to get the goods.

MR. CHERNE: The lack of available goods is one thing that makes the dollars rattle in the pocket with so much more fury.

MR. FRIEDMAN: Try to buy an automobile these days unless you happen to have a ration coupon.

MR. STIGLER: That is true in the case of goods that just do not exist any more. We ought also to notice that we have some goods that one just cannot get because of faulty distribution. We are all reading about how much cattle there is out West and how little meat there is in eastern butcher shops.

MR. CHERNE: You are hitting at the one point, as a matter of fact, that probably gives our discussion here today its greatest relevancy—the breakdown of a distribution system so that cattle farmers find it more profitable or more desirable to keep their cattle on the range rather than send them to the packing centers so that they finally reach the butchers and the tables of Americans.

MR. FRIEDMAN: This is a point, of course, in which we are probably less expert than most of our listeners. Any harassed housewife in America can tell you about the difficulty of buying the goods that she wants to buy.

MR. CHERNE: In all probability, not only can she tell us about it

but she can give us the two reasons—fairly faulty pricing policy in some cases but in other cases just plain physical strain on the transportation facilities.

MR. STIGLER: Let us add just one item to this background material of obvious information, but, nevertheless, things we ought to keep in mind for perspective. I have in mind quality degradation—houses are not heated so well or repaired so often; clothes are not so good; meats seem to be fatter in spite of anything steers can do; and so forth.

MR. CHERNE: That is one area where the housewife does not always realize that she is paying a higher price. In other words, I would call it a hidden price increase rather than quality deterioration—the hidden price increase that is apparent in paying no more for a shirt today than for the one you bought a year ago, but getting a shirt that will not last much more than half the length of time.

MR. STIGLER: As usual, you can say in summary that the total picture is mixed. There are some things that are pleasant and some that are unpleasant. Certainly, the most pleasant is that, by and large, in spite of our magnificent war effort and our ten-million-man army, we are pretty well off. We have many more goods to consume than other countries, and on the whole we have as good a standard of living as we have had in peacetime years.

MR. CHERNE: The thing that most people notice and point to first is the fact that everybody's working.

MR. FRIEDMAN: We do seem, in one respect, to be pretty well off. We do have a fairly high standard of living. Why is it we have been able to do that? It is largely because, on the one hand, we have been able to employ people who, a few years ago, were unemployed. In the second place, we have very large stocks of durable goods, both in the hands of the consumers themselves and on the shelves of retailers. Of course, these stocks are being depleted now, and we cannot hope to continue our present high level of living.

On this general point, Leon Henderson, now a colleague of yours, Cherne, but formerly the Price Administrator, made a very apt statement when he declared that the trouble is not so much the high cost of living as the cost of high living.

MR. STIGLER: Sam Grafton put it in a little more colloquial way when he said, "The national cry should not be a scream but a burp."

MR. CHERNE: Gentlemen, I would suggest that you take it easy. I am afraid that more and more we are beginning to paint a picture of opulence and ease and the absence of any difficulty. The optimism that registers in your last words is not a fair description of the many shadows and many very dark places in our home front today.

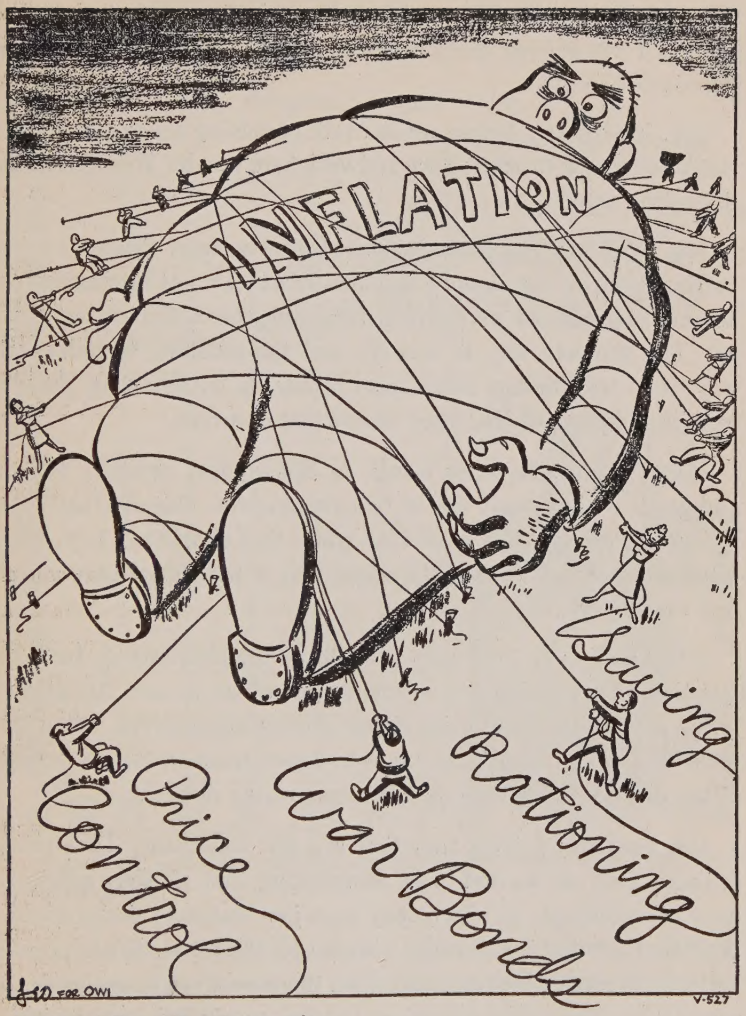
MR. FRIEDMAN: But that is not pure optimism, because note what it means—it means that we are having a smaller war effort than we could because we are consuming so much.

MR. STIGLER: I think that that is true. In addition, we are courting, because of this lack of balance between goods and dollars, a serious threat of progressive inflation, which means, among other things, that we will feel that we are worse off than we really are. It also may lead us to increases in strikes and absenteeism on the part of workers who are not satisfied with the deals they are getting in the heavily concentrated centers.

MR. CHERNE: When I said before that inflation is here—and you, Stigler, just repeated it in economic phraseology that is a good deal more sound—I wanted to add that we are still hitting at what may be a secondary level of danger. What disturbs me most is something that happened within the last ten days that is very relevant to our discussion of prices and your pocketbook. I am referring to the chaotic situation and the terrible thing that occurred in Detroit.

MR. STIGLER: How is that tied up with inflation?

MR. CHERNE: Very intimately. The Detroit riots were the result of political groups exploiting irritations, exploiting antagonisms, ex-



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ploiting difficulties, exploiting the fact that food was not flowing to the Detroit tables, exploiting the fact that housing was not available to many of the workers in Detroit, exploiting all the irritations that, of necessity, accumulate in wartime. The real necessity for solving

some of these difficulties and irritations is that, unless they are solved, it will be that much easier to exploit them and destroy our morale at home.

MR. FRIEDMAN: Before we can talk of solving these difficulties, maybe we ought to see how we arrived where we are. How did these difficulties arise?

MR. STIGLER: The general picture is pretty clear. While we were cutting down on the amount of goods, or at least not increasing the amount of goods, we were giving more and more dollars to consumers. The simplest way to stop it, and the sensible, fundamental way, is to take dollars away from people by withdrawing income from individuals, so that they cannot bid up prices.

MR. CHERNE: In other words, in this contest between dollars and goods we have only one of two alternatives. One alternative is to increase the quantity of civilian goods that people can buy. The other alternative is to take the money out of the pocket that would buy those goods.

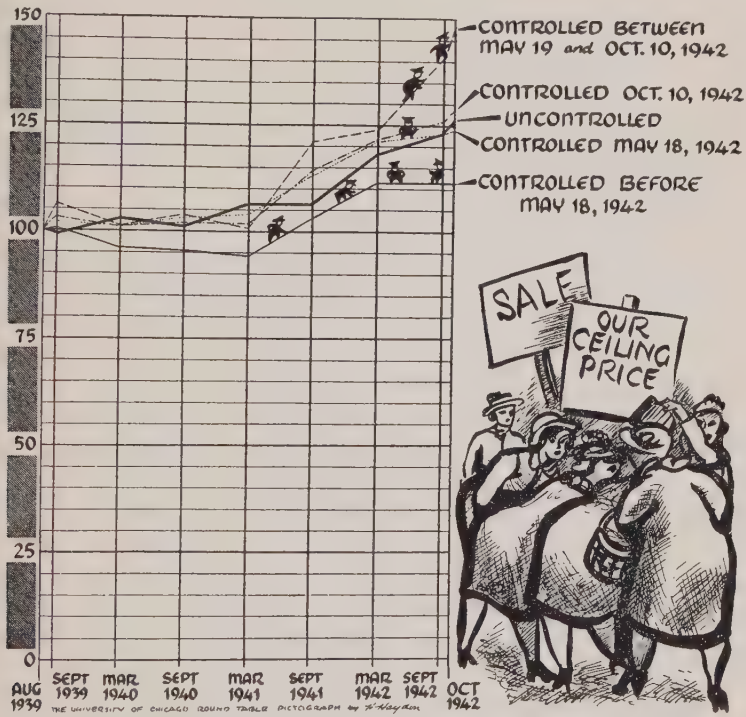
MR. FRIEDMAN: They may seem to be the alternatives, but the question we are asking now is how we got where we are. Apparently, we got there without using either of those alternatives. What we have been doing, it seems to me, is to concentrate on the symptoms of the disease rather than on the causes of the disease.

MR. STIGLER: I think that that is a fair statement. Take price ceilings. First we started in by announcing that we were going to have price ceilings. In effect, they were just statutory declarations. We found out that it was really a lot harder than that. When people had a lot of money to spend and when there were not many goods to spend it on, there were incentives to legal and illegal forms of evasion, as numerous as a Yankee ingenuity could make them.

MR. CHERNE: Doesn't that flow from the fact that we have tried so many times to approach each of these individual symptoms as though each one was a thing separate from the one it was connected

CONTROLLED VERSUS UNCONTROLLED PRICES*

August 15, 1939 = 100



* Does not include rent, utilities, and several other minor items. Department of Labor index.

with? In other words, in another area we are talking a symptom rather than the disease—or rather than a problem—and that is in the area of rationing.

Mr. Friedman: That is not quite so much an attack on a symptom really. Starting by fixing prices and saying that prices shall not be higher than a certain amount, we shortly found ourselves in the difficulty that people could not buy things at those prices because

just saying that prices should not go up in no way increased the supply of goods available and in no way reduced the amount of money people had available. The only answer to that, unless we were willing to go to the fundamental cause and remove the excess purchasing power, was to try to ration the goods.

MR. STIGLER: I think that we can say, by and large, in the field of rationing that we have done a very mixed job. On some commodities like sugar and like coffee, I think we have done a satisfactory bit of work.

MR. CHERNE: In other words, we have done a satisfactory job in rationing where the problem or where the control of the commodity itself was reasonably simple; but where control was more difficult—take meat—our record is not so good. Meat is an important commodity. Where the original supply of meat is in the hands of so many separate farmers, where even the packing is widely dispersed (even though there are two or three very large packers, there are thousands of smaller packers), it becomes extremely difficult to control the supply and to compel the movement of that supply to the market.

MR. FRIEDMAN: Moreover, it is not only difficult to control on the level of the wholesaler and the producer, Cherne, but it is also difficult to control on the level of the retailer.

You try to set points, and those points are the same all over the country. They are complicated combination, and it is very difficult to adjust them so that they will do the right job in New York and the right job in Chicago—not leaving New York with too much pork and Chicago with too much beef.

MR. STIGLER: That leads immediately to the next point. Who's to blame for it? I personally think that we can say that, while the OPA has at times been all right, at other times it has been a conspicuous failure.

MR. CHERNE: The problem of political and administrative failure is one in which it is extremely easy to call names and point

blame. I am not sure, as a matter of fact, but that it is not necessary to blame. This does seem apparent to me—and apparently not so apparent to you, Stigler, and as yet you haven't expressed yourself, Friedman—that each time the finger is pointed at an administrator and each time the charge is leveled (as it is so often) that he hasn't any guts, in effect what we are saying about that administrator is this: He is afraid to tackle you, the consumer; to regulate you, the purchaser; to impose on you, the citizen of this country, the necessary action. In other words, it's a double-edged sword. The administrator may be inefficient; he may not have the courage to go ahead with the appropriate measures; but the reason is because there is no certainty in this country that the individual upon whom the regulation would be imposed would not rebel or would not complain or would not beef. I go back to your quotation from Grafton before.

MR. STIGLER: That is part of the story, and I think that we are always going to look for a culprit or somebody whom we can kick. But I would also say that in cases like the gasoline picture—where several times there have had to be temporary freezes—the picture is by no means as much a question of courage as it may be of error or stupidity.

MR. FRIEDMAN: It is error or stupidity not so much, I think you will agree, Stigler, on the way the particular program has been run as on the general policies that have been adopted.

But I think that we probably ought to pass from this problem of how we got where we are to the problem of where we go from here.

Cherne has been pretty tough on our listeners, telling them that they cannot take it. Maybe we should tell them what it is they have to take.

MR. CHERNE: The most logical spot to examine is the spot that is most in the public eye at the moment because of the congressional action in the last few days—I am talking about subsidies.[1]

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[1] The House of Representatives on June 25 passed a bill to extend the life of

Mr. Stigler: That is part of the administration scheme; and we can say fairly clearly why subsidies generally arise. They arise because, when you fix final prices, let us say the price on cheese to consumers, and, on the other hand, let the price of milk and things like that go up, there is going to be a squeeze. Either production falls or you lift your price ceiling or you have to have a subsidy to make up that difference.

Mr. Cherne: Without the subsidy, in other words, you'd have no cheese?

Mr. Stigler: That's right.

Mr. Friedman: Without the subsidy or without a higher price?

Mr. Stigler: That's right.

Mr. Friedman: Or without a lower price on the cost. Those are your alternatives.

Mr. Cherne: Your alternatives, though, are higher prices or subsidies. Isn't that true, Friedman?

Mr. Friedman: No, that certainly is not true, because those are not real alternatives. Let us look at what subsidies themselves do. In my view, they are in the main inflationary.

Mr. Cherne: I do not think that any of us will disagree with that. The choice here is between inflationary procedures—which shall we choose?

Mr. Stigler: Just a minute, gentlemen. When you say that subsidies are inflationary, I think that that ought to be spelled out. That is not so obvious, since it is used as a chief device to control inflation.

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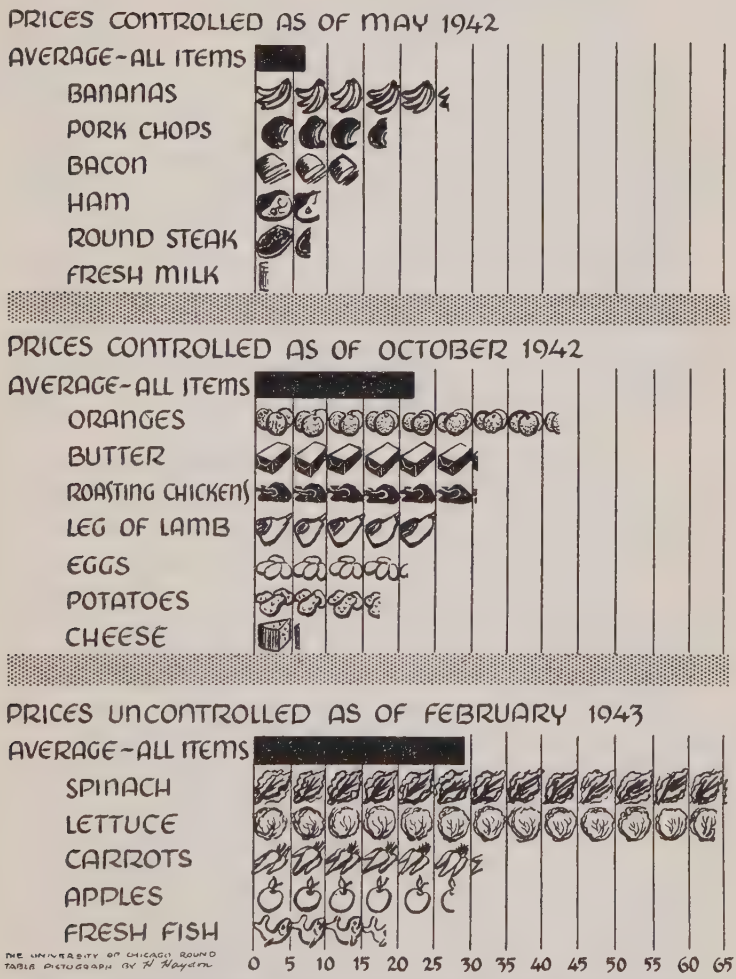
the Commodity Credit Corporation which also carried a provision prohibiting the payment of subsidies to consumers on agricultural commodities for roll-backs of maximum prices. It would allow the payment only of those subsidies of the meat, butter, and coffee programs, already in effect or scheduled, which actually had accrued up to the date of the final enactment of the legislation. Mere commitments would not be covered. On the following day the Senate rejected subsidy payments by a vote of 39 to 37.

PERCENTAGE RISE IN THE PRICE OF FOOD

February, 1942—February, 1943*



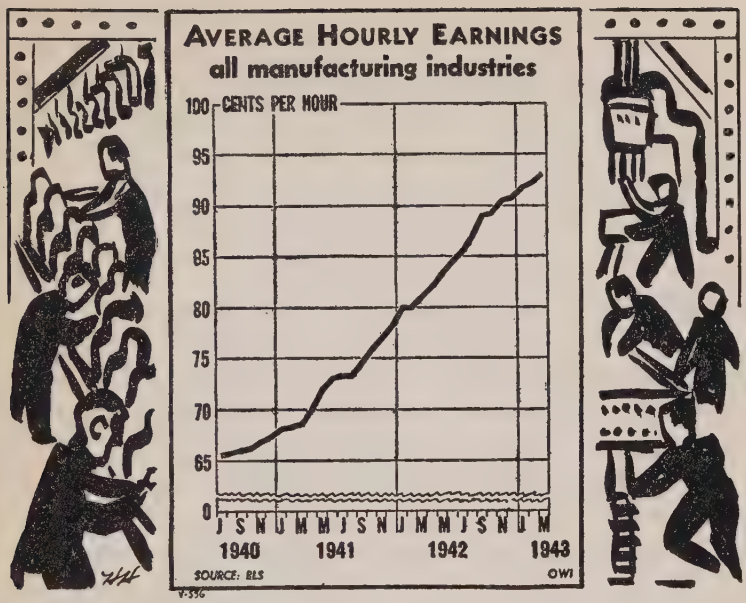
* The specific items listed under "Average—All Items" are selected and do not include all products making up the average. Source: Department of Commerce and Department of Labor.

What I think Friedman means is this: Simply that you give money to producers, let us say to the fellows who make cheese. On the other hand, the consumers are not paying any more. They have just as many dollars as they had before. The net effect is to add more dollars to the money stream or, if you want to look at it another way, to increase the federal deficit.

MR. FRIEDMAN: The reason why you get into trouble here is because of the failure to distinguish between a particular price and general prices. There is no question but that if you give a subsidy to producers of cheese and hold down the retail level, it does keep the retail price of cheese down.

The question is what effect it has on other commodities. On these other commodities it has the twofold effect that Stigler has mentioned: it increases the income of the producers of cheese, on the one hand, and it leaves consumers with more money to spend on things other than cheese, on the other hand.

MR. CHERNE: You have an entirely satisfactory mathematical picture, but I wonder whether or not it is a satisfactory psychological picture. I have in mind the assertion that has been made by both the A.F. of L. and the C.I.O. (and I think it must be examined because they represent a substantial portion of the working population) that approximately forty million American workers are keyed in their wages to a 15 per cent increase in the cost of living. As a matter of fact, the cost of living has gone up by 25 per cent, yet wages are keyed to that "Little Steel" formula. The national labor organizations are in effect saying—and this was underlying in the conflict with Lewis—that if we are to hold the rank and file of our labor unions under control, we have to roll back the prices of three or four major items. In order to roll back the prices on these three or four major items, we need subsidies. Congress has, in effect, said the past few days that we will not roll back the price on those commodities. The prices will go up. Subsidies will not be used. However, it has not completed painting in that picture. The completion of that



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picture is that the A.F. of L. and the C.I.O. must reply. I think that we can forget about the Little Steel formula.[2]

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[2] The Little Steel formula, which has been used by the National War Labor Board and which was reaffirmed by President Roosevelt, applies to groups, not to individuals. An increase may be granted to a group of workers to bring their average straight-time rates up to 15 per cent over the level prevailing on January 1, 1941. But this does not mean that each employee in the group will get a 15 per cent raise. If a union is involved, the question of how the lump increase shall be distributed within the group is determined by collective bargaining with the employer. Usually, under this system, each individual receives a flat increase of a certain part of the amount, and the rest is used to raise the level of the lower-paid workers. Where there is no union involved and no collective bargaining, the allocation is determined by the employer, and his plan is subject to the approval of the War Labor Board.

The Little Steel formula was first applied in June, 1942. The WLB had estimated that for the period from January 1, 1941, to May, 1942, the cost of living had increased about 15 per cent. Therefore, it said that if any group of workers had averaged less than a 15 per cent increase in hourly wage rates during that

Mr. Stigler: There are really two answers to that, and they are the reasons why I do not think that that argument is persuasive. The first is a simple one. Actually, as long as the cost of living was rising, it was a good excuse for asking for wage increases, but you could always find other excuses.

Mr. Cherne: Don't try to persuade me. The problem here is to persuade the many millions of American workers who see the problem as a problem of increased cost of living that may rise faster than the pocketbook can adjust itself to it.

Mr. Friedman: If you agree with what we said before, Cherne, then do you really think that the holding-down of the price of two or three commodities at the cost of larger price rises on all other commodities will really leave the American worker in a position where he does not think that he needs higher wages, and maybe justly so?

Mr. Cherne: My very frank answer is that I believe that we are playing with a matter of months. In each of the proposals that has been made thus far (and there have been no adequate proposals or no adequate programs), we have been playing with holding off inflation for a matter of a month, or a matter of two months, or holding it off by a point or by two or by five.

Mr. Stigler: I object to that. I do not see any point in preventing an inflation for a month unless we are about to dictate armistice terms to some rather tough enemies. We have to plan for a year or two. There has been entirely too much one-week or one-month planning.

Mr. Friedman: Moreover, we have to consider not only what the effect of these subsidies is right now but also what their effect will be later on.

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period, their "established peacetime standards" had been broken and they were entitled to a raise. In November, 1942, the Board reannounced that if a group of employees had received increases amounting to 15 per cent of their average straight-time rates over the January 1, 1941, level, the Board would "not grant further increases as a correction for maladjustments."

Mr. Cherne: The agency that has just called an end to subsidies is Congress. Do you recall within recent months any substitute program that Congress has proposed to take care of this problem?

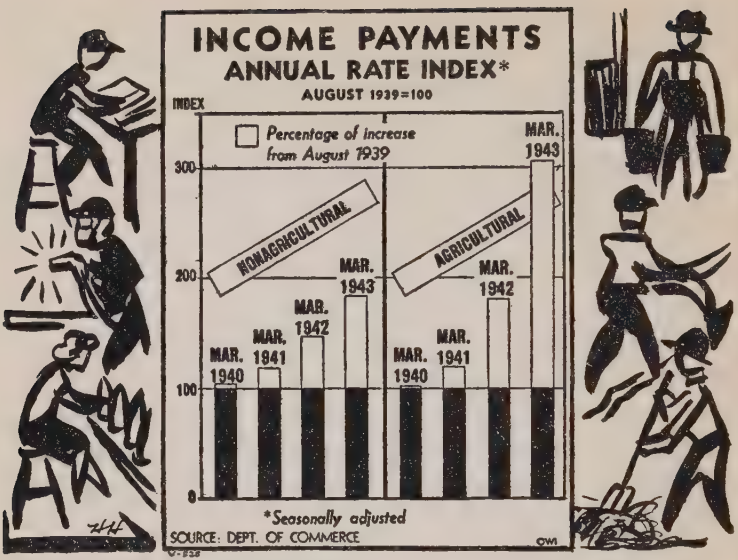
Mr. Friedman: No, I do not think Congress has had a substitute program so far. At least, I cannot figure out what it is. It seems to me so far that Congress has been largely negative in its attitude. It has been against subsidies.

Mr. Cherne: As a matter of fact, you are too generous and naïve where Congress is concerned. Congress has a very positive program that they have been in recent weeks articulating. Congress has finally decided that the answer to many of the problems that face us today is inflation. I quote as one of the leading authorities behind that assertion a very conservative and responsible business publication, *Barron's Weekly*.

Mr. Friedman: That is a pretty startling accusation there, Cherne. Congress has been negative, but I think you are going a bit too far in saying that Congress is actually in favor of inflation. That may be the result of their actions. Inflation would be the result if they did nothing constructive, but you are saying that they are explicitly in favor of inflation. Why should that be so?

Mr. Cherne: You start out by assuming (and I know you do not agree as a matter of fact even with yourself) that inflation is of necessity injurious to everybody. That, as a matter of fact, just is not true. Runaway inflation will inevitably destroy the nation. But Congress is playing, I am afraid, a very dangerous gamble, and that is that inflation can exist and still not be runaway. There are many separate blocs throughout the country that can be benefited by that type of inflation.

Mr. Stigler: I just want to say on the one other point here, too, that, while inflation is bad, there are things which are worse. I am not so sure that an open-and-above-board inflation, if it did not get too far out of hand, would not be just as good as this covered infla-



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tion that we are having at the present time. While we are denouncing Congress, I would like to put in a little plug for denouncing the administration, too. Remember that on the tax field they have not been very aggressive. Roosevelt is for higher taxes in about the same neutral tone that most people are against sin. Morgenthau, who should be most aggressive, is not overly so. His creed seems to be never to make an enemy rather than what a treasury's creed should be—never to have a friend.

Mr. Cherne: I agree entirely that there is in no area in Washington today anything that even has the faintest resemblance to a program. But we ought to analyze just where it is we would like to go. What is the program? What is the method of tackling that which we all agree is dangerous?

Mr. Friedman: What we have said so far makes it pretty clear what our main reliance must be. The basic cause, much more important than any other cause we have mentioned, is the fact that

people have a large amount of income relative to the goods and services available for them to buy. No individual, of course, thinks he has too much. I certainly do not. Yet, we all really do because we do not have enough goods and services to match the income that we have available. Therefore, it seems to me that the basic solution—and the only solution that offers any promise of solving it and getting at the root of the trouble—is a strong fiscal policy that will be devoted to withdrawing income from the pocketbooks of the American people.

MR. STIGLER: I certainly concur in that. When we mention strong taxes, we ought to spell that out and not just leave it as a vague adjective. By that I mean specifically that, in the case of our personal income taxes, which is our big revenue source and probably the one we should continue to use primarily, we should slash our exemptions from twelve hundred dollars to eight hundred dollars for a couple. We should step up our rates, which are going to be 20 per cent soon, while they ought to be at least 35 per cent.[3]

MR. CHERNE: In other words, the problem in the area of taxation is to take out of the pocket every dollar that is in excess of the amount of goods that can be bought?

MR. FRIEDMAN: That is tough medicine, but if we are realistic, we have to face it in those terms. There is little point in talking about a few more billions of taxes. We need tens of billions more of taxes. We need taxes as firm and as strong as those that Stigler has suggested.

MR. STIGLER: The sales tax is frequently mentioned. I do not think that we have to bother with it because most people do not seem to recognize that if the rate is low the tax is pleasant but yields nothing, and if the rate is high, it yields something but is not very pleasant. What about the spendings tax?

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[3] See A. G. Hart, Neil Jacoby, and Henry Simons, *Bigger and Better Taxes*, a University of Chicago ROUND TABLE transcript, No. 259, broadcast March 7, 1943, for a discussion and analysis of tax policies.

MR. FRIEDMAN: That offers real possibilities as a supplement to the income tax. It ought not to be used to replace the income tax; but, as a supplement, it has the very great advantage of curtailing the spending of the American people.

MR. CHERNE: The tax you are talking about is the proposal that was made by the Treasury about a year ago, as I recall, was it not, that would tax an individual in proportion to the amount of his money he spent on most tangible goods? Isn't that right?[4]

MR. FRIEDMAN: That's right. That's quite right.

MR. CHERNE: An incentive to each taxpayer not to spend. If he does not spend, he is not taxed; but, if he does spend, he is taxed on every dollar that is spent.

MR. STIGLER: Of course, we also should mention compulsory saving, or more properly, compulsory lending. There I should say that if that is really more palatable to the people—getting bonds rather than tax receipts—I am in favor of it. Anything that will raise the money should be used.

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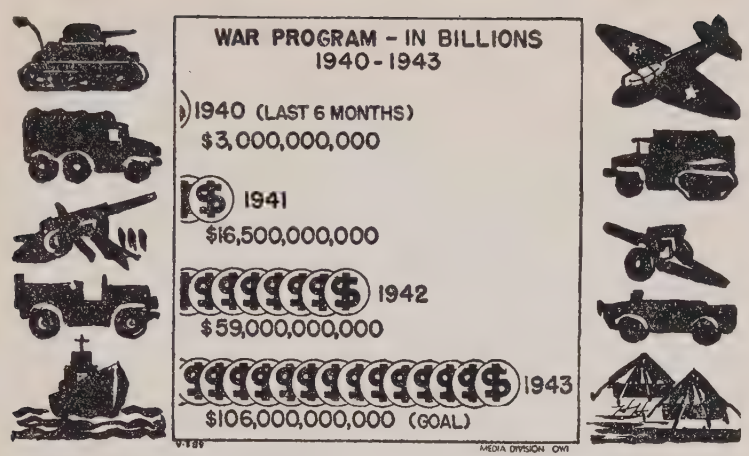
[4] The spendings tax which was proposed by the Treasury consisted of two parts: (*a*) a flat 10 per cent tax to be refunded after the war and (*b*) a progressive surtax. The 10 per cent would be imposed on total spendings of individuals for consumer goods and services. Only single persons with incomes less than $500 and married couples with incomes less than $1,000 would escape the tax. The exclusion would be increased by an additional $250 for each dependent.

The spendings would be computed as follows: From the total amount of funds at the taxpayer's disposal derived from either current income or drawings on capital, there would be subtracted the "savings"—defined to include repayments of debts, premiums paid on life insurance, expenditures for the purchase of bonds or other capital assets, gifts and contributions, payment of taxes, and increases in bank balances. The 10 per cent refundable part of the spendings tax would be collected in the same manner and at the same time as the individual income tax, with a withholding tax also provided for.

The surtax would be imposed on expenditures in excess of $1,000 for single persons and $2,000 for married couples and an additional $500 for each dependent at the following progressive rates: $0–$1,000, 10 per cent; $1,000–$2,000, 20 per cent; $2,000–$3,000, 30 per cent; $3,000–$5,000, 40 per cent; $5,000–$10,000, 50 per cent; over $10,000, 75 per cent.



Courtesy Office of War Information

Mr. Cherne: The question will undoubtedly be raised as to whether any increase in our tax program, any strong fiscal policy, any introduction of compulsory savings, would not be unbearable.

Mr. Friedman: That is like saying that we cannot afford to wage the war. We are paying the cost. We have no choice about whether to pay the cost. The only question is how we should pay the cost.

Mr. Cherne: As a matter of fact, I think that we will both agree that we are paying that cost today. In other words, the choice is whether that amount of money is paid in terms of price increases that go into the cash registers of the stores we buy in or whether that same amount of money and no more goes into the Treasury in terms of a strong tax system.

Mr. Friedman: There are several alternatives for paying the cost. We can pay in the form of taxes, which has the very great advantage that it can explicitly be determined who shall pay the tax, and, further, it leaves us with no headache in the post-war period. The second alternative is that of having a rationing program that tells us that we cannot use our money. The third alternative is

simply paying in the form of higher prices with all that that means for all of us.

MR. STIGLER: Let me summarize briefly what we have said today on this ROUND TABLE on "Prices and Your Pocketbook."

As a whole we have expressed dissatisfaction with the way the civilian side of the war has been run so far. We have had quite a bit of inflation. The way things are going to go now, we are going to have quite a bit more. The whole trend of the administration is too much in the direction of specific manipulation and not enough in the direction of courageous taxes.

Let it be said again that inflation is not in prospect; it is here. It has been here for more than a year. It is no longer sensible to talk about preventing inflation from appearing. We must face squarely the task of stopping it now.

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More on This Topic

BAILEY, NATHAN, "The New Fight against Inflation," *Current History*, May, 1943. *Reviews the administration's efforts to check inflation.*

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KENT, GEORGE, "Clamp Down on the Black Market Now!" *Reader's Digest*, June, 1943. *Reports on the black market in meat.*

KEYNES, J. M., *How To Pay for the War.* New York: Harcourt, Brace & Co., 1941. *The case for forced savings.*

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MEZERIK, A. G., "The OPA Crack-up," *New Republic*, June 28, 1943. *An analysis of the sources of attack upon the OPA.*

"OPA Turns Kindly," *Business Week*, June 5, 1943. *Reports the defeat of stringent price control.*

PERLOFF, HARVEY S., "Taxes Are Good for You," *Survey Graphic*, March, 1943.

STEWART, MAXWELL S., *How Can We Pay for the War?* "Public Affairs Pamphlets," No. 74. New York: Public Affairs Committee, 1942. *An analysis of the alternatives.*

"Subsidies or Wage Boosts," *Business Week*, June 26, 1943. *States the political dilemma of price control.*

What Do *You* Think?

1. What evidence do you find to support or refute the contention that inflation is already here? Has your income risen as rapidly as the cost of living? How does your present purchasing power compare with that of one, two, or three years ago?

2. Do you think that Congress is right in refusing to authorize subsidies to keep prices down? What are the arguments for and against the use of subsidies as a part of price control?

3. How successful has the work of the Office of Price Administration been in your community? Is there much evasion? What should be done about black markets? What are the merits of grade labeling? What changes should be made in price control policy and enforcement?

4. Do you think in a war economy that allowing farm prices to rise would result in greater food production? Why?

5. If food prices are allowed to rise, can wage rates be kept at their present levels? If the Little Steel formula is abandoned, as the speakers suggest, what ought to be substituted? Would you favor tying wage levels to the cost of living, so that an increase of 1 per cent in the cost of living would automatically mean a 1 per cent wage increase?

6. If farm prices are allowed to rise, if food prices are allowed to rise, if heavy taxes are not laid, how is the war paid for and by whom? What do the speakers mean when they say that in any case we will pay for the war and that the real question is how it shall be paid?

7. Do you think that "controlled inflation" is possible or desirable? Under what conditions would a runaway inflation be possible in the United States? What is the effect of inflation upon the middle class, upon savings, and upon the different social and economic groups?

8. Is it cheaper in the long run to pay higher taxes or higher prices during the war years? What groups in America cannot afford prices above ceilings? What part do these groups play in the war program? Will it hurt anyone who can afford prices above ceilings to pay heavier taxes?

The People Say....

The following letters are representative of the views expressed by the ROUND TABLE *audience on "The States and Post-war America," broadcast June 20, 1943.*

*

Helping Unemployed

.... I believe that we all can agree that we should encourage the general public to help to employ as many as possible. I would like to refer to Denmark, where, voluntarily, local people have grouped together, even under present evil conditions, to get employment for the unemployed. I do not have the details but understand that this has been successful (without government help or interference). We should start to inform the people of the U.S.A. that unemployment, even if they are not the unfortunates themselves, will hurt them all in the long run.....—*A listener from Pittsburgh, Pennsylvania.*

*

Can We Weather the Storm?

.... I still believe that "cause and effect" is in existence and that, regardless of the "hopefuls," the spree has to be paid for. Whether it is by private enterprise or by government, the operation is bound to be painful. Furthermore, many ills are accumulating that will be just as serious as the deplorable condition of debt. I just wonder whether our "Hinky Dink" ("the vote is the thing") democracy can weather the storm..... We are gliding along now, but it is going to be rough very shortly after the war is over, and I am afraid that the "hopefuls" are going to feel the effects just as the rest of us.....—*A listener from Detroit, Michigan.*

*

Obsolete Economy

.... Two speakers and perhaps the governors are still talking in terms of an obsolete economy when they state post-war recovery entirely in terms of "jobs" or money transactions. Hasn't food rationing taught them that production is the only true wealth and that food production is the most serious problem of all? Don't they know that our whole economy is now badly lopsided by reason of something like 15 per cent rural and 85 per cent urban economy? What we really need to worry about is not "What day-labor job can I get after the war?" but "When do we eat?" Even if there are private and/or government-made jobs for every person after the war, our economy will still be dangerously unbalanced. What we need is heavy emphasis on rural-based economy of food production, with men spending four hours a day in urban jobs, if convenient, and the rest of the time pro-

ducing their own food on their own private-enterprise farms. . . . .—*A listener from Oklahoma City, Oklahoma.*

*

States Do Not Serve People's Interests

. . . . Heaven help us! If we are to allow our states to take the initiative on anything (and it has been that way for years, too) after the war, we are sunk. . . . . The people's interests are not served at all. Believe it or not, we in my state have a state constitution, dating back to 1844, which has never even been amended or brought up to date in any way. Many of the legislators do not even want to submit to a vote of the people changes which the governor has fought for for three years. . . . . From what I know of the southern states and some western states, it would be criminal to let any of them have a hand in the critical post-war times in deciding for the nation, as a whole. . . . .—*A listener from Palisades Park, New Jersey.*

*

Are They Really Planning?

. . . . From what I heard I cannot see that anything has been planned to help the returning soldiers. If factories are making plans for post-war work, it could be for the owners' benefit and not necessarily to aid employment. If we heard that employers were considering what wages to pay and a Golden Rule attitude toward the employed, how to prevent strikes, and such details, then we might believe that the factories were really planning a post-war program. . . . .—*A listener from La Grange, Illinois.*

*

Valuable Suggestion

. . . . The comment to the effect that in lieu of stressing the 48 states as laboratories for governmental experimentation, we could better divide our country into a dozen regional areas, to set up in each region federal offices that under general direction from the nation's capital could much more efficiently perform many governmental functions now centralized in Washington . . . . seems to me a most valuable suggestion. It is one that might well be developed in a ROUND TABLE of its own. We already have our Federal Reserve System, our federal courts, and certain other governmental or semigovernmental functions established on a regional basis. They function with far more satisfaction, receive far less of vitriolic criticism, than the great bureaus exclusively centered in Washington. . . . . A national government should not merely be strong enough to perform its functions; it should also be so organized that it gives the maximum satisfaction to its people. This it can never do while so much of it is so remote from those most affected by its decisions.—*A listener from Spokane, Washington.*

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Fort Wayne, Ind.	WOWO	1190	Rochester, Minn.	KROC	1340
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CAREY McWILLIAMS, Formerly California Commissioner of Immigration and Housing

ROBERT REDFIELD, Dean of the Division of Social Sciences, University of Chicago

(THIRD SPEAKER TO BE ANNOUNCED)

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SUGGESTED READINGS

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[PRINTED IN U.S.A.]